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SUBJECT : Impact of Flood Conditions on Certain Sectors of Communist China's Economy

Communist China has suffered over the past several weeks from extremely wide-spread flood conditions, the long range effect of which may prove a serious handicap to her economic program. Unusually heavy and continuous rainfall has resulted in record flood crests in the Yangtse and Hwai Rivers, with flood conditions also reported in areas extending from Tibet in the West to the Sungari, Liao and Yalu Rivers of the Northeast. The extent of the damage in the Yangtse area is believed to be comparable to that which occurred in 1931, heretofore considered the most serious flood year in modern Chinese history. Water conservancy projects erected since 1951 in the Hwai He basin have apparently limited the severity of the flood in that area to about 40% of the 1931 damage. Any further heavy rains or dike breaks could, however, result in a rapid extension of the flooded area.

The detailed effects of these flood conditions on the services sectors of the economy, in so far as they can be estimated at this time, are set forth below. In

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summary, it appears that the restoration of transportation and communications facilities will be fairly rapid, and that, in spite of heavy demands in the afflicted areas, China's manpower resources are adequate to cope with rehabilitation efforts. On the other hand, much of the flood control work of the past several years will require extensive reconstruction, diverting labor, materials, and equipment from the capital investment program. The damage to crops is believed to be of a magnitude that will jeopardize China's ability to meet her export commitments and to satisfy domestic consumption needs. Although the mobilization of many national and local agencies to cope with the immediate problems created by the floods reveals some measure of dynamism in Communist China's organizational and managerial capabilities, the leaders of the regime face a more exacting test in coping with the set-back to their economic program which is expected to result from the famine conditions, the increased austerity which will be demanded in urban areas, and the <sup>reduced ability</sup> inability to finance imports needed to carry out that program.

TRANSPORTATION

As a result of flood conditions prevailing along the Yangtze and Hwai Rivers railway connections between North and South China have been temporarily interrupted in the vicinity of these rivers.

The Communist travel agency in Hong Kong announced that on 8 August the last rail link between North and South China had been cut, with the washing out of a rail section near Pengpu. 1/ Previous to this date reports indicated that as

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early as 1 July service on the Hankow-Canton line had been interrupted by washouts in the vicinity of Chuchou. 2/ This line is believed to have been returned to service only to be interrupted a second time on 31 July. 3/ During this period north-south rail movements were carried on over the Canton-Chuchou-Shanghai line, where extensive efforts were being made to preserve the operating status of the line. [REDACTED]

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[REDACTED] Apparently the serviceability of the Shanghai-

Chuchou line as a link in north-south communications was dependent upon the Tient-sin P'u-k'ou line, which, when washed out on 8 August, resulted in complete stoppage of north-south traffic.

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[REDACTED] it

[REDACTED] is believed that the line was operable for the greater part of August, since it

was apparently less <sup>a</sup> affected by flood conditions than the alternate north-south connection. 4/ Hence, as of 2 September it is believed that all railroads were operable, but that operations were probably limited because of weakened roadbeds.

It is <sup>at present</sup> presently impossible to estimate the damage done to the railroads by the flood or to measure the limitations which have been placed on traffic over these

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flooded lines.

In view of the fact that much of the normal traffic of the railroads in the vicinity of the floods would be disrupted by the emergency movement of flood control materials and relief supplies it is probable that the rail junctions of North and South China have become highly congested. This is particularly true of Canton where the volume of imports has been considerably increased due to the Nationalist blockade of the China coast and subsequent routing of maritime traffic to Canton. While the congestion in Canton is considered to be acute at the moment it is believed that such conditions will be largely corrected with the re-establishment of through rail service.

In view of the fact that the railroads were rendered <sup>in-</sup>operable for such a short period of time it is unlikely that significant construction problems will be posed in the returning of these lines to normal operating service.

TELECOMMUNICATIONS

It is reported that in the Hwai and Yangtze valleys disruption of telecommunication service has occurred in several forms. Evidence is on hand that lines have been washed out at several points, necessitating both re-routing of landline traffic and opening up radio links. The additional burden of flood reporting has also caused disruptions to normal service. [REDACTED]

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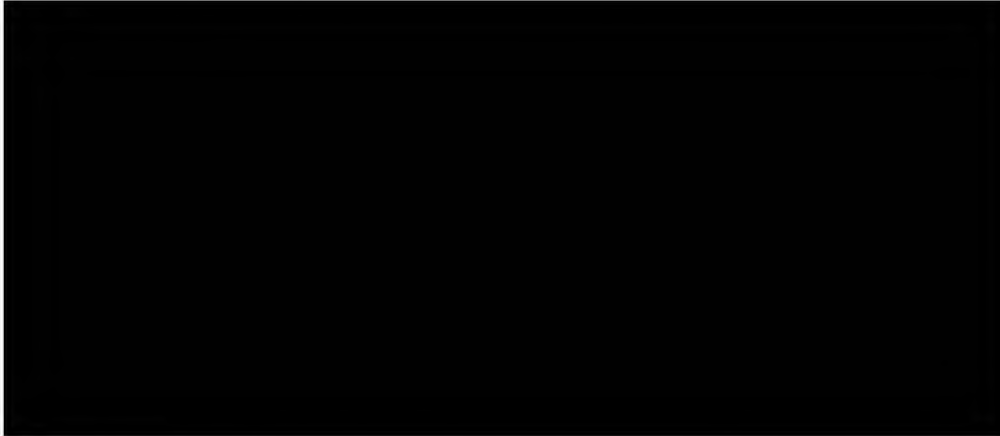
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The impact of the floods is not believed to be of serious magnitude in terms of time and resources necessary to restore normal service. Full assessment must wait until more complete data is in, but it is noted that flood waters will cause most serious damage to facilities at river crossings, and in the vicinity of dike breaks and overflows, where such facilities are in the path of fast water. While damage at such points may cause considerable delay, in most of the high-water areas, it is estimated that only nominal amounts of time and material will be sufficient to restore the wirelines. A larger amount of damage could result in cases where more expensive and complicated equipment is involved. Hankow is the outstanding case of vulnerability to this danger. Present evidence does not indicate that this has as yet occurred and it is probable that the major effort to minimize damage in the Hankow area has prevented it.

The long-range effect of the floods will doubtless cause a tightening of capital investment and shortages of material and equipment in many economic sectors, but it is probable that the high priority assigned to tele-communication

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facilities by China's economic planners will prevent any marked delay in the program for continued expansion of these facilities.

MANPOWER

It seems likely that well over 2.5 million civilian laborers have been engaged in flood prevention work since the middle of July, with at least 1.6 million working along the Yangtze alone. 10/ Announcements mention 600,000 laborers working along the middle reaches of the Yangtze, in Hupeh and Hunan, and nearly one million laborers working on the lower reaches of the Yangtze, in Anhwei and Kiangsu. 11/ Along the Hwai River over 800,000 laborers, including Army personnel, have been raising the dike levels and keeping a continuous watch along the length of the river. 12/ In addition to these areas, 400,000 laborers have been reported strengthening dikes along the Liao River in Liaoning Province. 13/

This emergency labor force, recruited almost entirely from farm families by the corvée system, would not ordinarily be a severe drain on China's over-abundant agrarian population. In the currently flooded area, however, it is expected that the agricultural labor force will be under considerable pressure to repair and strengthen dikes and also to drain inundated land and re-sow autumn crops. Over the next two months, therefore, restoration of flooded land, combined with the current "increase-production" campaign, will put heavy demands on agricultural labor in the affected areas.

It is estimated that famine and epidemic conditions will result in the flood

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areas particularly during early 1955, but it is doubtful that these will be of a severity sufficient to affect the growth potential of China's population.

CONSTRUCTION

The extent of flooding indicates that extensive damage has probably been caused to much of the flood control works constructed <sup>over the past several years</sup> ~~in the period 1951-53~~ which involved the movement of about 1,700,000,000 cubic meters of earthwork. The impact of the flood damage will be far-reaching in its rehabilitation requirements for manpower, materials and machinery and for further improvement to the flood control system. The present dike system and the channel improvements have served to contain large amounts of the flood waters and increase the volume and rates of flow of the rivers. The tendency toward emphasis on dike and channel improvement rather than on retention reservoirs has resulted in higher river levels during flood periods than heretofore. This situation is further indicated by the ~~comparatively~~ rapid rise and fall in river levels <sup>compared with previous floods,</sup> and the resultant greater damage to areas down stream. The flood control efforts of the past three years have proven to be of considerable help in alleviating floods by reducing the flooded area and making it possible to reclaim inundated areas more quickly by pumping.

It can be expected that even higher priorities will be placed on flood control improvements in the future which will probably divert considerable labor, materials and equipment from the 1954-55 capital investment program.

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INTERNATIONAL TRADE AND FINANCE

It has been estimated that the net loss to food production due to the flood will amount to seven to ten million metric tons. <sup>14/</sup> 1953 exports of food products to the USSR were 1.3 to 1.4 million metric tons. <sup>\*M/</sup> These products are also being exported in substantial quantities to other Bloc countries and made up over eighty-five percent of Chinese exports to the West in 1953. It can be expected that a loss in production of the magnitude estimated will make it extremely difficult for the Chinese to maintain their export commitments. [REDACTED]

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It may be that the

Chinese will be forced to cut their planned export, either to prevent local famines or because the products are unavailable. If they fail to ship other commodities, e.g. soybeans, peanuts and their oils, this would be a stronger indication that they have decided to decrease exports as a result of the flood damage. However, third quarter rice export quotas to the USSR apparently have been met. <sup>15/</sup> Exports of food products to the West are continuing. The need to receive goods from these areas is strong and undoubtedly will influence the Chinese decision relating to maintenance of the planned level of exports.

Shortages created by the floods may result in efforts to increase imports.

For example, damage to the cotton crop, believed to be considerable, could force  
\*M/AG estimate

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the Chinese to seek imports of cotton fibers. A substantial increase in imports either from the West or from the Soviet Bloc is unlikely, however, unless this increase comes about as a result of an extension of credit to Communist China. Loss of exports and, therefore, the foreign exchange they earn means an equivalent loss in imports, and to China imports are essential to her industrialization program. In order to maintain imports at the planned level or to increase them because of emergency shortages, China would have to obtain credits (or relief aid) from the Bloc. Flood relief assistance offers may be made by the USSR and some of the European Satellites. None, however, have been noted to date. A Burmese offer of relief was turned down on August 1, as not being needed at the present stage. 16/ The extent of the flood damage could lead the Chinese to accept this and other aid offers from the West. \* To date, however, the Chinese seem to have taken the line that they can handle this problem by themselves. If China is unable to maintain her export program and is forced, as a consequence, to cut imports of needed materials and at the same time allows propaganda considerations to dictate a refusal to accept aid offers, a serious setback to her economic development program could result.

#### ORGANIZATIONS AND MANAGEMENT

While long-term flood control projects have been carried out in China by the Ministry of Water Conservancy, present emergency conditions have called for

\* Hungary, Czechoslovakia and East Germany recently have accepted Western relief offers 17/. China could follow these examples.

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cooperative effort by a number of different agencies. The Ministry of Interior appears to have a major role in the administration of relief and rehabilitation efforts, particularly in the evacuation and temporary settlement of refugees from the stricken areas.<sup>18</sup> This Ministry, together with the People's Bank has allocated 1,494 billion yuan (about US \$64,000,000) for flood relief. <sup>19</sup>

The People's Revolutionary Military Council has reportedly supplied planes for airlifting relief supplies, <sup>20</sup> and the Ministries of Food and Agriculture have been called upon to furnish seed for replanting activities. <sup>21</sup> Local cooperative organizations have been required to furnish gunny sacks and other materials, and the various State-trading companies have been directed to expedite the shipment of commodities "to stabilize market prices" in the stricken areas. <sup>22</sup> In addition the mobilization of labor under local Communist Party and government authorities for emergency flood control work, as indicated above, has been extensive. Of course, the use of mass corvees for flood control and other projects has been practised from early antiquity in China and involves techniques with which the Communists are thoroughly familiar. The allocation of labor to the various activities needed and the continued operation of industrial facilities in the Wu-Han area must, however, have posed somewhat of a problem to the administrators of the emergency programs.

Emergency flood control measures involve more than the organization of large

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numbers of men and amounts of materiel. Basic policy decisions have also been necessary. It is probable, for example, that the extraordinary measures which have been taken to minimize damage to the industrial area at Wu-Han have required a policy decision which calculated the resultant greater damage to agricultural areas. The widespread character of the flooding and the threats of floods have undoubtedly involved some centralized decisions on allocation of relief supplies and use of limited transport facilities. An additional policy decision is seen in the obvious efforts of the Chinese Communist leadership to maintain the prestige of the regime by refusing aid offers and continuing, to a large extent, their export program in spite of what must be great internal needs. <sup>23/</sup> The widespread publicity which has been given in the past to the flood control works, not only the massive Hwai River project, but also programs on the Yangtze and Yellow Rivers, and the past claims that dangers from floods have been eliminated have apparently forced the regime to take the line that the situation is well under control and no outside assistance is needed. In spite of much evidence to the contrary, for example, the Attlee mission was led to believe that "this is not considered one of the serious flood years." <sup>24/</sup>

The long-range effects of the floods will pose major problems for the Chinese leadership. As tentatively pointed out above, telecommunications and transportation facilities are already showing or will soon show a fairly rapid recovery, but the

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rehabilitation of flood control projects, which must receive high priority consideration, can only be effected by a considerable diversion of labor, materials, and equipment from the industrial development program. The loss of agricultural production will create a problem of maintaining exports to support the needed imports for that program. It is also expected to produce famine conditions over a wide area by spring of 1955, which will be reflected by shortages and rationing programs in urban areas, and will reduce the amount of surplus which can be exacted from the peasantry to support a program of capital goods expansion. It is concluded that these problems arising from the flood situation and its aftermath will provide a major test of the administrative and managerial skill of the Chinese Communist leadership.

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T O P S E C R E T F R O T H

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